

AUG. 11, 1972

AR30

REPORT TO INVESTORS


**MIDLAND·OSLER
SECURITIES LIMITED**
File
PANCANA INDUSTRIES LIMITED
Aug 23/72

Year ends December 31

1972		Current Market	Earnings per Share			P/E Ratio*	Ind. Div.	Yield
High	Low		1970	1971	1972 (E)			
3.50	2.15	3.20	\$0.31	\$0.14	\$0.35	9.1x	NIL	-

*based on estimated 1972 profits

(Persons interviewed: Kendal Jennings, President & Chief Executive Officer

David B. Nicholson, Secretary & Treasurer)

PanCana's principal activities are service industries to the oil and gas industry but recently the company diversified into tuna fishing.

The main divisions are:

construction: major road building programme from Fort Simpson to Inuvik, NWT, providing economic benefit to the petroleum industry. Having performed this operation the company feels far more competent to undertake future exploration, production and pipeline construction work.

drilling: management continues to place greater emphasis on wildcat and remote area drilling which PanCana believes in the long run will enhance the opportunity for more efficient utilization of the drilling equipment and operational profitability. Another satisfactory operational year should be witnessed in 1972.

The information contained herein is based on sources which we believe reliable but is not guaranteed by us and may be incomplete. Any opinion expressed herein is based solely upon our analysis and interpretation of such information and is not to be construed as an offer or the solicitation of an offer to buy or sell the security mentioned herein. This firm and/or its individual officers and/or its directors and/or its representatives and/or members of their families may have a position in the securities mentioned and may make purchases and/or sales of these securities from time to time in the open market or otherwise.

The following includes the name of every person having an interest directly or indirectly to the extent of not less than 5% of the capital of Midland-Osler Securities Limited: E.M. Kennedy, David B. Weldon, R.G. McCulloch, W.A. Stewart, D.H. Page, G.F. Ryley, L.E. White, J.W.N. Thomas.



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electronics: historical losses and high capital investments were the principal factors influencing PanCana to discontinue the manufacturing activities of Western Electronic Systems. While the sales market is improving it is felt there are more profitable areas for involvement by the Company.

fisheries: Strom Fisheries were acquired in 1971 for 550,000 shares of treasury stock. The principal assets are a 15%-20% equity interest in four 1400-ton vessels and 10% equity interest in one 1900-ton vessel. The majority interest in the 1400-ton vessels is held by Heinz, the international consumer food and fish canning industrial complex. Ownership of the 1900-ton Apollo, the largest tuna fishing vessel in the world, is held by various financial investors who have direct association with the tuna fishing industry. Each of these boats represents a capital investment of between \$3-5 million - they are highly mechanized, efficient and have greater catch handling capability than most boats of similar size in the world fleet.

geophysical: five crews are used of which three use conventional techniques (dynamite) and two use vibrator ("Vibroseis") equipment.

heavy equipment: heavy earthmoving road maintenance, logging, mining and forest equipment.

pipe line: in 1971 PanCana entered into a joint venture with Assoc. Pipe Line Contractors of Houston, Texas, under which PanCana owns 51% and Associated 49% of the new company. Associated has had more than 20 years experience in pipeline construction.

Total revenue for 1971 amounted to \$18.3 million vs. \$15.9 million in 1970. No breakdown is given by the company but it seems as if the heavy equipment division was the main contributor last year, accounting for almost half of the revenue. Next in importance, we believe, was drilling and fishing. The geophysical division operated at a loss of around \$290,000 in 1971. Earnings from contributing operations last year amounted to \$443,000 vs. \$998,000, and after the loss on discounted operations of \$335,000, net profit was \$108,000. Therefore, on an earnings per share basis a figure of 14¢ was struck on continuing operations and 3¢ per share after absorbing the loss on discontinued operations.

For 1972 the company should do well. Instead of a loss, the geophysical division should show a profit, pre-tax, of \$500,000. The drilling division should better last year's efforts. The heavy equipment division, also, should be ahead of last year. A lease repurchase agreement which will run until next year is building up substantial monthly earnings but these will not be included in earnings this year.

The main fulcrum seems to settle on the fisheries. The world demand for tuna has been increasing rapidly and is reflected in an increasing premium price paid for the catch. This fleet represents a "supermarket" type of fishing operation and the highly sophisticated nature of the vessels, their great range and large tonnage-carrying capacity, takes them out of the class of small fishing vessels. It is felt the vessels are of ideal size, speed and design for fishing international waters. PanCana has obtained full Canadian rights to the construction design of the "super seiners" and construction of additional vessels in Canadian boat yards is a distinct possibility. It is estimated that this division will contribute at least 15¢ per share.

Various of the transmission companies have invited PanCana to bid on major projects for construction this summer. Prospects appear quite promising. It is estimated that within the next 10 years more miles of pipe will be laid in Canada than in any other petroleum producing country.

CAPITALIZATION: (December 31, 1971)

Long term debt	\$2,215,259	23.2%
Deferred income taxes	852,872	8.9
3,195,000 common, npv	4,926,212	51.6
Retained earnings	<u>1,549,994</u>	<u>16.3</u>
	<u>\$9,544,337</u>	<u>100.0%</u>

OUTLOOK

In the past, PanCana has enjoyed good earnings in the first and fourth quarters with the intervening quarters breaking about even. Historically, the Oilfields Service business has a pattern of winter operations causing significant drops in revenue and cash flow through the summer months. The fisheries division will now provide a more even revenue picture. The entry by PanCana into the tuna fishing business is a diversification from the concept of coordinated oilfield services, heavy equipment and construction but should augur well for the future. The company is

one of the few contractors which has had experience in building roads in the Arctic and should benefit from recent government announcements of construction of the Trudeau highway.

OPINION

PanCana is a relatively newcomer in the field of industrial and service oriented companies and does not have much of a record to assess. However, the management seems to be capable and aware of and alert to the possibilities existing in the fields of its endeavours. Diversification into tuna fishing should prove to be a well worthwhile project. While speculative, we feel the company will show a substantial improvement over 1971 and the future looks most promising. We recommend the shares for risk-oriented accounts.

J.G. Smele
August 11th, 1972

P.S. Since writing this report the company has announced earnings for the six month period ended June 30, as follows:

	<u>1972</u> (\$000 omitted)	<u>1971</u>
Revenue	\$12,800	\$10,400
Net Profit	\$ 711	\$ 446
E.P.S.	\$0.22	\$0.14

Favourable weather in the NWT during April permitted an extension of winter activities in areas where exploration is not normally possible at that time of year.

file

PAN CANA

annual report
1972

PAN CANA INDUSTRIES LTD.

DIRECTORS

DELMER BAIN
FRED C. BRECHTEL
JOSEPH J. EWING
DALE E. FICKINGER
KENNETH G. HEFFEL
KENDALL JENNINGS
EDMUND E. KUHN
DAVID B. NICHOLSON
THOMAS H. STEVENSON
ARNOLD J. STROM
ALAN D. WALDIE

OFFICERS

KENDALL JENNINGS	President, Chairman of Board & Chief Executive Officer
DELMER BAIN	Vice-President & General Manager, Construction Division
DONALD C. BOUTWELL	Vice-President (Sales)
DALE E. FICKINGER	Vice-President (Foreign Operations & Special Projects)
EDMUND E. KUHN	Vice-President & General Manager, Equipment Division
DAVID B. NICHOLSON	Secretary-Treasurer
JACK F. TROTTER	Vice-President

ANNUAL MEETING

The Annual Meeting of the Company will be held at the Holiday Inn, Eighth Avenue and Sixth Street, S.W., Calgary, Alberta, on April 17th, 1973, at 10:00 in the forenoon.



TO THE SHAREHOLDERS

Your Company produced very much improved results in 1972 and for the first time achieved net earnings in excess of \$1,000,000. I believe that these results indicate that we are now firmly back on course towards achieving the full potential of our Company.

You will see in the body of our Annual Report that we have made a substantial change in our Divisional presentation. Much additional information has been provided and I trust that the method of presentation will help our shareholders and potential investors in our Company to understand better both our current operations and our growth potential.

All of our major divisions were profitable in the year and I should particularly like to draw your attention to the successful year achieved by our Construction and Drilling Divisions. These divisions, which are two of the original three divisions which were merged in 1969 to form PanCana, contributed almost 40% of our 1972 earnings, and I am very happy to recognize their efforts in this report. Our Geophysical Division returned to a profitable position after a difficult year in 1971; and our Equipment Division again recorded a substantial profit which, while reduced from the previous year, nevertheless represented one-quarter of our earnings.

Our two new divisions, Fisheries and Pipeline, had both successes and disappointments in 1972. On the plus side Fisheries completed their first full year of fishing with the four new 1400-ton tuna seiners and has shown that the design of the hull is excellent and that our investment represents some of the best boats in the world for tuna fishing. On the negative side we experienced considerable initial problems with our power-packages in the boats and this factor reduced our earnings from this division to well below our expectations. These problems have now been cured and will not be a factor affecting future earnings.

Our Pipeline Division has established itself as a recognized major contractor and has been accepted on the bid lists of all the major companies in its market. However, we were not successful in obtaining a major contract but we performed successfully on smaller work.

Much of our future growth will rest in the fortunes of these new divisions and I am confident that we have invested in the right areas to achieve significant future improvements in our earnings. I also anticipate that our Equipment Division will maintain the long-term growth pattern which it has established since its formation, and will continue to make a major contribution to our earnings and provide considerable support to the activities of both Construction and Pipeline Divisions.

The strength of our Company has always been our people and I believe that the turnaround in our performance in 1972 results directly from the tremendous efforts of our employees at every level throughout the Company. On your behalf, as well as my own, I am pleased to have this opportunity of publicly thanking them for their efforts.

A handwritten signature in dark ink, appearing to read "Kendall Veroning". The signature is written in a cursive, flowing style.

President

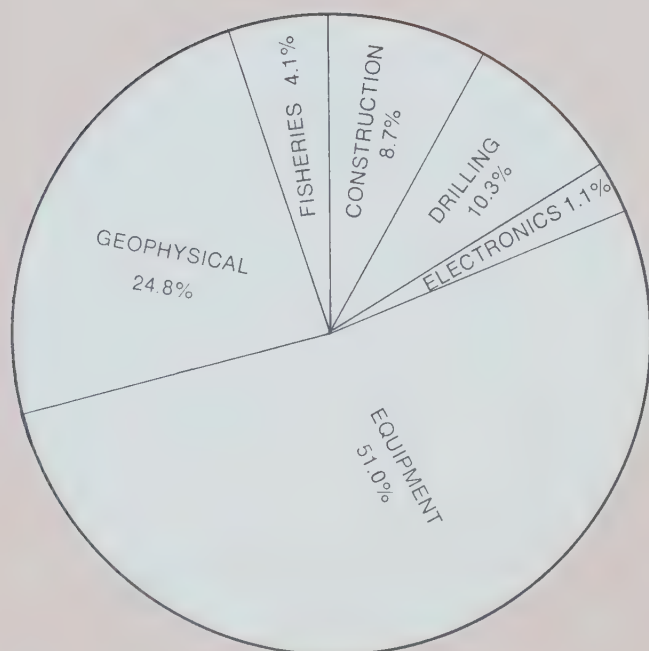
1972 HIGHLIGHTS

	1972	1971
REVENUE	\$24,093,194	\$18,747,398
EARNINGS FROM CONTINUING OPERATIONS	1,025,264	442,894
NET EARNINGS per share	1,078,244 34¢	108,373 3¢
CASH FLOW FROM CONTINUING OPERATIONS	2,174,628	794,419
ASSETS EMPLOYED	10,395,424	8,742,414

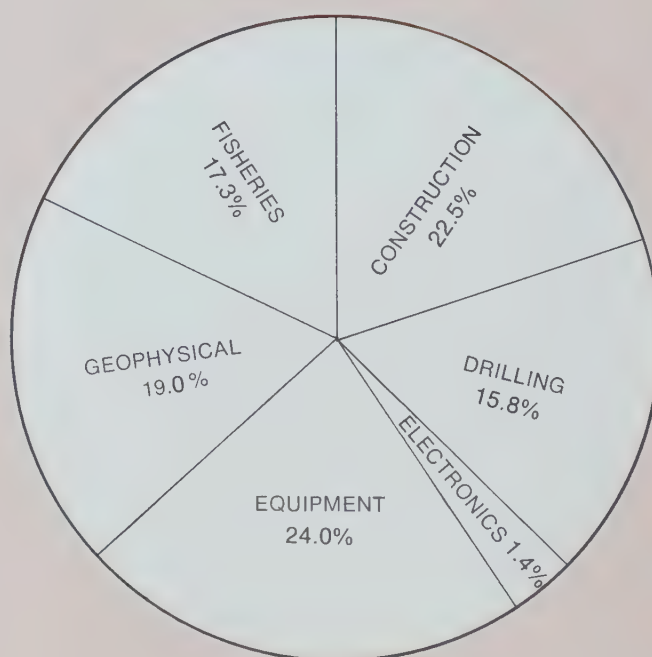
DIVISIONAL REVIEW

The Divisional reports following show the earnings of each operating Division after eliminating intradivisional trading and before extraordinary items. Interest on long-term debt and corporate overhead have not been allocated to Divisions. Return on assets employed (total assets less current liabilities) has been calculated on the assets employed at the end of each fiscal year. For divisional reporting it has been assumed that all Divisions, except Fisheries, are subject to full corporation tax rates.

REVENUE



NET EARNINGS FROM CONTINUING OPERATIONS





1. Bain Bros, Construction Equipment on MacKenzie Highway Extension



2. Erection of Bailey Bridge over Martin River on MacKenzie Highway Extension



3. Jennings International Drilling New Rig No. 2



4. Epsilon Fishing Company, Inc. 1400-Ton Tuna Seiner "Denise Marie"

CONSTRUCTION DIVISION

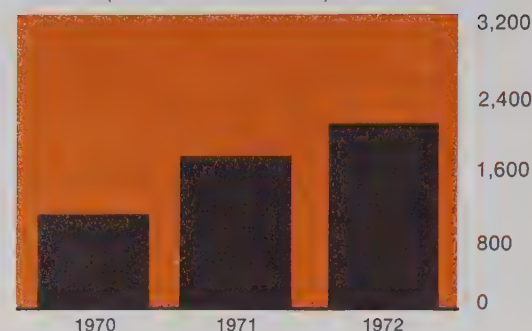
1972 was the most successful year in our Construction Division's history. An increase of 24% in gross revenue produced a 277% increase in net earnings and again the division produced an excellent return on assets employed.

In September the division was awarded a Federal Government contract for clearing, grading and drainage of the first 49 miles of the all-weather Mackenzie Highway extension. This section runs from Fort Simpson north to Camsell Bend. Work started in October, 1972 and is scheduled for completion by October, 1973. We are currently running an on-the-job training programme for Northwest Territories residents in conjunction with this contract and are using all the suitably trained local personnel that are available. This programme is being carried on with the co-operation of the Federal and Territorial Governments.

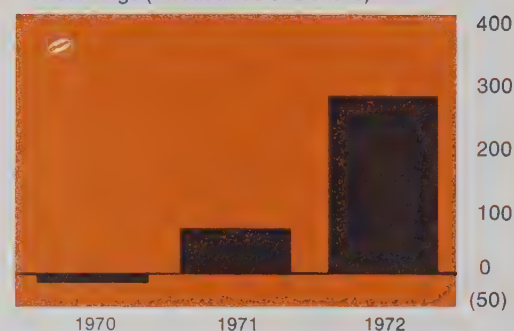
We continued our high level of activity for various oil companies providing access roads, well sites, seismic lines, airstrips and other earth-moving work in the North. We continued to operate the winter toll road from Fort Simpson to Inuvik.

Our policy of increasing involvement in northern development and our experience in working under the arduous conditions of the North are the main contributory factors in our 1972 success. We believe that in the future the same factors will enable us to participate in the expanding opportunities in the development of transportation, pipeline and resource facilities in the North.

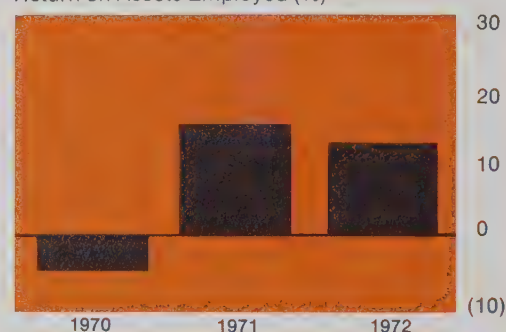
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Return on Assets Employed (%)



FINANCIAL SUMMARY

	1970	1971	1972
Revenue	<u>\$1,047,035</u>	<u>\$1,673,436</u>	<u>\$2,077,262</u>
Expenses			
Direct contract costs	803,870	1,291,506	1,230,265
General and administration	111,851	138,202	108,872
Depreciation	72,001	27,733	88,480
Interest	71,420	66,558	85,629
	<u>1,059,142</u>	<u>1,523,999</u>	<u>1,513,246</u>
Earnings (loss) before taxation	(12,107)	149,437	564,016
Taxation (recovery)	<u>(6,345)</u>	<u>74,808</u>	<u>282,008</u>
Net earnings (loss)	<u>\$ (5,762)</u>	<u>\$ 74,629</u>	<u>\$ 282,008</u>
Assets employed	<u>\$ 108,779</u>	<u>\$ 475,732</u>	<u>\$2,099,579</u>
Return on assets employed	<u>(5.3%)</u>	<u>15.7%</u>	<u>13.4%</u>

DRILLING DIVISION

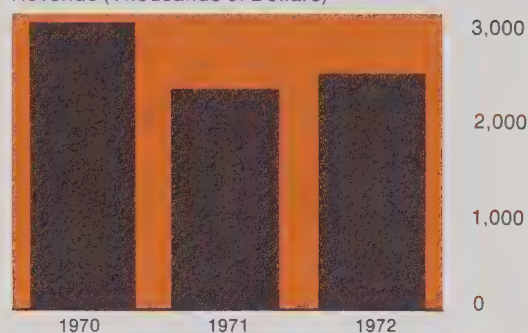
Net earnings of the Drilling Division doubled in 1972. This marked a sharp return from the depressed earnings of 1971 and was accomplished despite the loss of rig No. 2 in February as a result of a high-pressure gas blowout. This loss was fully insured and a new dual-depth rig was built in replacement. The new rig No. 2 spudded its first hole on November 17, 1972.

Our successful year reflects not only higher activity than in 1971 but also the repositioning of an additional rig in the Northwest Territories for the 1971-72 northern drilling season.

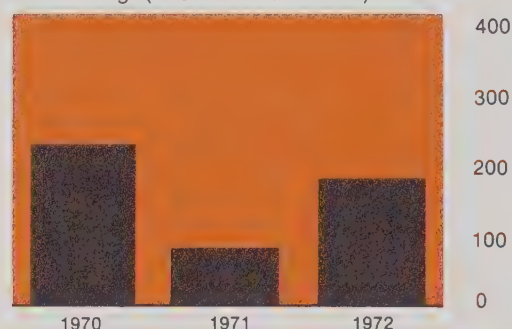
During 1971 and 1972 we invested heavily in a general rig upgrading programme particularly of the rigs in the Northwest Territories. Because of the long-term outlook for continued activity in this region both rigs have been completely winterized for Arctic-type operations and these rigs are now equipped to operate efficiently anywhere in the Far North.

The impact on the Drilling Industry of the forecast for a heavy increase in exploration activity to meet the increasing North American demands for oil and gas has been somewhat lessened by government actions but we foresee an active year in 1973 and for some years ahead. With our upgraded rigs and experienced field and support personnel we are excellently placed to continue our activities at the current profitable level.

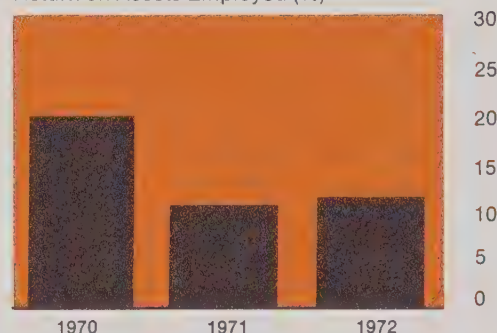
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Return on Assets Employed (%)



FINANCIAL SUMMARY

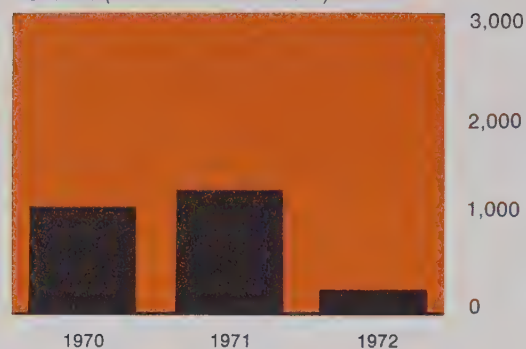
	1970	1971	1972
Revenue	\$2,985,553	\$2,293,968	\$2,469,345
Expenses			
Direct contract costs	2,122,720	1,767,309	1,733,413
General and administration	211,911	205,760	221,805
Depreciation	105,776	75,710	80,848
Interest	29,959	48,079	38,561
	<u>2,470,366</u>	<u>2,096,858</u>	<u>2,074,627</u>
Earnings before taxation	515,187	197,110	394,718
Taxation	270,009	98,673	197,359
Net earnings	<u>\$ 245,178</u>	<u>\$ 98,437</u>	<u>\$ 197,359</u>
Assets employed	<u>\$1,182,082</u>	<u>\$ 926,450</u>	<u>\$1,718,498</u>
Return on assets employed	<u>20.7%</u>	<u>10.6%</u>	<u>11.5%</u>

ELECTRONICS DIVISION

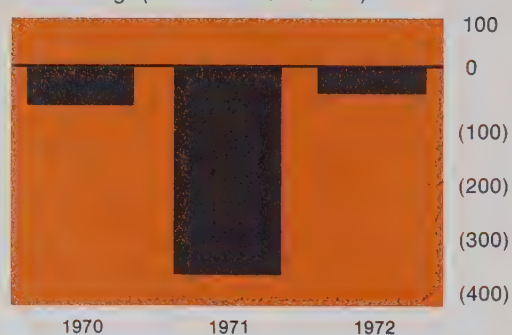
As reported in the 1971 Annual Report the Board made the decision to discontinue the manufacturing activities of the Electronics Division, and to restructure the joint-venture agreement between the Electronics Division and Baker Automation Systems Inc. An estimated provision was made in 1971 for the losses which were anticipated and in 1972 additional losses of \$58,000 were incurred as a result of this cut-back.

We continue to represent Texas Instruments Inc. as sales representatives for their seismic instrumentation products and we also handle the products of Input-Output Inc. in the same field. We also provide maintenance and repair of seismic instrumentation, both in the field and in our own shop facilities, for all areas of Canada and Alaska. Both of these activities were profitable in 1972 and should remain so in the future.

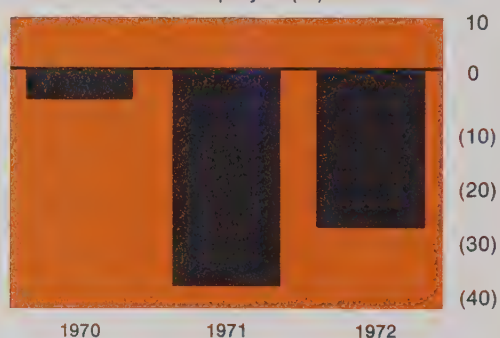
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Return on Assets Employed (%)



FINANCIAL SUMMARY

	1970	1971	1972
Revenue	<u>\$1,058,824</u>	<u>\$1,293,692</u>	<u>\$ 262,254</u>
Expenses			
Cost of sales	973,240	1,590,793	186,712
General and administration	153,848	332,885	125,060
Depreciation	11,317	10,052	17,542
Interest	<u>35,305</u>	<u>42,808</u>	<u>13,354</u>
	<u>1,173,710</u>	<u>1,976,538</u>	<u>342,668</u>
Earnings (loss) before taxation	(114,886)	(682,846)	(80,414)
Taxation (recovery)	<u>(60,212)</u>	<u>(341,833)</u>	<u>(40,207)</u>
Net earnings (loss)	<u>\$ (54,674)</u>	<u>\$ (341,013)</u>	<u>\$ (40,207)</u>
Assets employed	<u>\$1,025,115</u>	<u>\$ 967,620</u>	<u>\$ 148,954</u>
Return on assets employed	<u>(5.3%)</u>	<u>(35.2%)</u>	<u>(27.0%)</u>

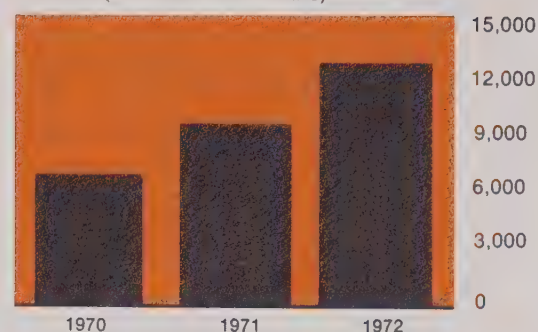
EQUIPMENT DIVISION

In 1972 the Equipment Division companies, North West Commercial Sales Ltd. in Edmonton, Northland Commercial Sales Ltd. in Vancouver and Dorval Tractor Ltd. in Montreal increased their sales revenue by 36%. Much of this increased activity came in the summer months at a time when we were finalizing plans for expansion of our workshop facilities in both Edmonton and Vancouver. The resultant bottleneck and overloading of our existing workshops meant that we were unable to convert the increased volume into increased profits.

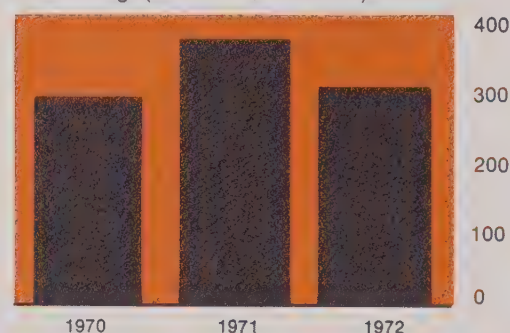
Work on an 11,000 square foot extension to the Edmonton workshop, with greatly improved and expanded welding shop facilities, was started in the fall and the Vancouver company was relocated in the early part of 1973 to entirely new premises including an 8,000 square foot custom-built workshop. This expansion should greatly improve our turn-around time for overhauling equipment and should ensure that we can handle a further increase in volume without experiencing the difficulties of 1972.

Market demand in 1973 is expected to be strong with increased construction programmes in the regions covered by the division. The price of new equipment has already been increased and delivery periods are lengthening. As a result we expect to see a restoration of the profit margins and return on assets employed to 1970/71 levels.

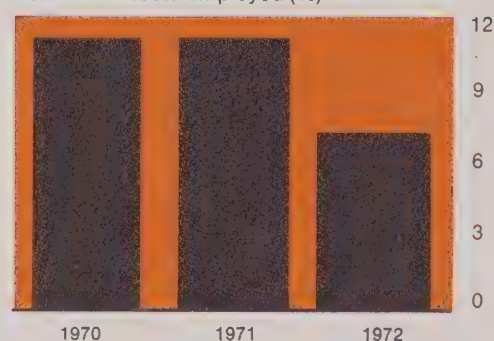
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Return on Assets Employed (%)



FINANCIAL SUMMARY

	1970	1971	1972
Revenue	\$6,286,971	\$9,002,334	\$12,244,848
Expenses			
Cost of sales	5,162,171	7,481,937	10,824,499
General and administration	304,890	420,981	413,169
Depreciation	28,739	62,046	70,682
Interest	165,475	302,879	335,849
	<u>5,661,275</u>	<u>8,267,843</u>	<u>11,644,199</u>
Earnings before taxation	625,696	734,491	600,649
Taxation	<u>327,927</u>	<u>367,686</u>	<u>300,325</u>
Net earnings	<u>\$ 297,769</u>	<u>\$ 366,805</u>	<u>\$ 300,324</u>
Assets employed	<u>\$2,646,720</u>	<u>\$3,239,754</u>	<u>\$ 4,304,322</u>
Return on assets employed	<u>11.3%</u>	<u>11.3%</u>	<u>7.0%</u>

GEOPHYSICAL DIVISION

Northern Geophysical Ltd. recorded an increase of 31% in gross revenue in 1972 while the increase in direct contract costs was held to 16%. As a result, a profit of \$237,000 was reported for 1972 compared to a loss of \$135,000 in 1971.

Much of this marked profit improvement was due to the results obtained by the seismic crews operating in the Northwest Territories during the first four months of 1972. As anticipated in the 1971 year-end report, the geophysical division was able to capitalize on management's decision to position equipment in the Northwest Territories which proved vital in the acquisition of several large programs in the area.

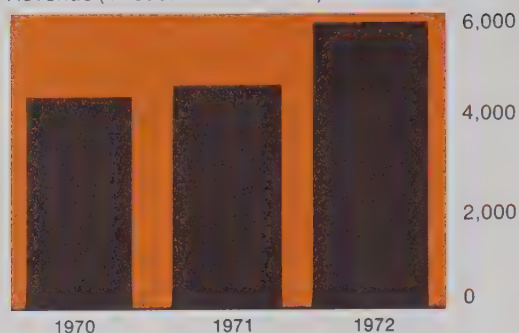
The active winter season was supplemented by early summer and late fall operations made possible by Northern's emphasis on tracked equipment. This equipment, which is available on four of our five crews, makes operations possible in remote off-road locations in all but the worst weather conditions.

Northern expanded its service in soil testing and core drilling in 1972 and two significant contracts were negotiated on which work started in November. These contracts extend well into the first quarter of 1973.

The division continued its policy of equipment improvement and updating by expanding its second vibroseis crew from 24 to 48 channel recording capability.

Because of contracts in progress, crew performance in early 1973, and the anticipated continuing industry demand for Northern's versatile service, we are optimistic that the profit level established in 1972 can be repeated or exceeded in 1973.

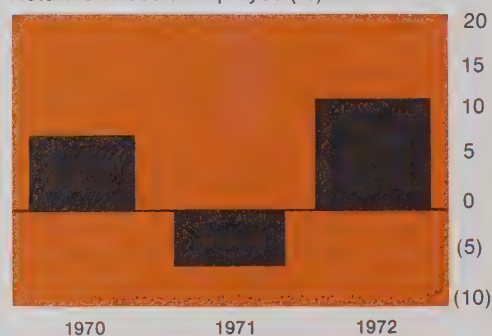
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Return on Assets Employed (%)



FINANCIAL SUMMARY

	1970	1971	1972
Revenue	\$4,387,365	\$4,555,984	\$5,972,403
Expenses			
Direct contract costs	3,437,062	4,163,279	4,837,975
General and administration	272,548	220,971	227,604
Depreciation	302,247	356,988	369,748
Interest	11,151	86,309	61,431
	<u>4,023,008</u>	<u>4,827,547</u>	<u>5,496,758</u>
Earnings (loss) before taxation	364,357	(271,563)	475,645
Taxation (recovery)	190,960	(135,944)	237,823
Net earnings (loss)	<u>\$ 173,397</u>	<u>\$ (135,619)</u>	<u>\$ 237,822</u>
Assets employed	<u>\$2,221,430</u>	<u>\$2,460,924</u>	<u>\$2,146,923</u>
Return on assets employed	<u>7.8%</u>	<u>(5.5%)</u>	<u>11.1%</u>

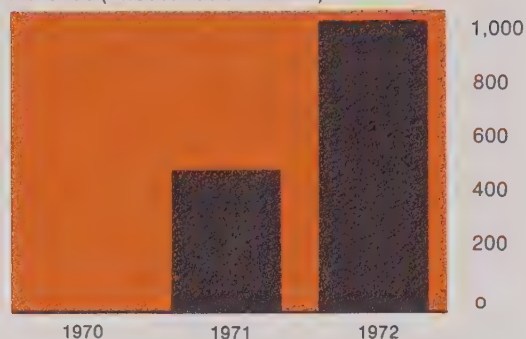
FISHERIES DIVISION

1972 was a disappointing year for the Fisheries Division. The four new 1400-ton tuna seiners experienced extensive problems with the reduction gearing on the main engines. This was caused by a combination of design and manufacturing problems and resulted in failure of the gear teeth and also overheating and excessive wear of the gearbox bearings. The catch taken by all four boats was much reduced as a result of the days completely lost on the fishing grounds, travelling to and from the port of repair and actually undergoing repairs and also as a result of the inefficiencies resulting from running at reduced power. The time lost in the key January to April fishing season is particularly serious as the Ecuador catch is limited by a total tonnage quota commencing on January 1 each year and lost time in the quota period cannot be recovered later in the year.

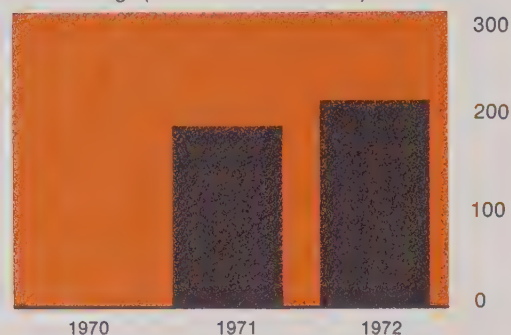
The problems with the gearing were completely cured during 1972 and no recurrence is expected. We are hopeful that some compensation will be obtained from the manufactures of the power-train, but any such settlement will probably be the subject of lengthy negotiation and no credit for recovery has been recorded in the 1972 results.

We anticipate that 1973 will be a normal year for all five boats and we are anticipating a considerably greater contribution from this division.

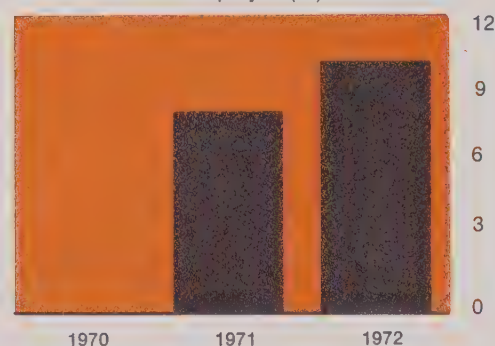
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Return on Assets Employed (%)



FINANCIAL SUMMARY

	1971	1972
Revenue	\$ 458,517	\$ 981,799
Expenses		
Cost of sales	201,972	629,343
General and administration	8,118	4,301
Depreciation	45,985	132,441
Interest	—	—
	<u>256,075</u>	<u>766,085</u>
Earnings before taxation	202,442	215,714
Taxation	<u>8,106</u>	<u>—</u>
Net earnings	<u>\$ 194,336</u>	<u>\$ 215,714</u>
Assets employed	<u>\$2,387,600</u>	<u>\$2,128,374</u>
Return on assets employed	<u>8.1%</u>	<u>10.1%</u>

PIPELINE DIVISION

PanCana-Associated Contractors Ltd. (PAC) operates in Canada as the Pipeline Division of our company. PAC is owned 51% by PanCana Industries Ltd. and 49% by Associated Pipe Line Contractors, Inc.

Although the company was only established in late 1971 it was invited to bid on all big-inch pipeline construction which was submitted to tender in Canada in 1972. While PAC did not obtain a major contract in 1972 it obtained a contract to instal a 16" pipeline river crossing in Quebec and successfully completed this work in September.

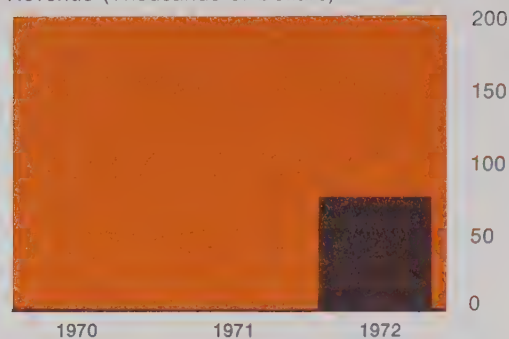
In 1973 PAC will submit proposals on the major pipeline projects including 84 miles of 36 inch line for Westcoast Transmission and 143 miles of 48 inch line for Interprovincial Pipe Line.

PanCana-Associated Contractors is also expanding its capabilities in the "Special Work" categories, such as rehabilitation of older lines, hydrostatic testing, marine instalation and double-jointing of newly manufactured pipe. These activities will be utilized to reduce the peaks and valleys related to pipeline construction.

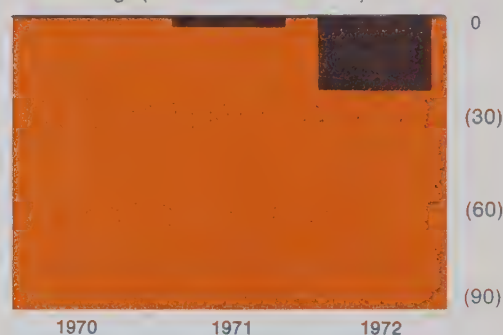
The Company has also participated recently in the preparation of construction cost estimates for the proposed pipeline systems which would transport natural gas from Arctic areas and expects to be involved in the construction of these pipelines.

The expected expansion of existing pipeline systems in Canada and the development of major new systems to meet the growing market demands for natural gas and crude oil will generate great opportunities for pipeline construction firms in this decade. The goal of PAC is significant participation in these programs.

Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



FINANCIAL SUMMARY

	1971	1972
Revenue	\$ —	\$ 71,895
Expenses		
Direct contract costs	—	61,144
General and administration	4,614	64,501
Depreciation	—	421
Interest	—	—
	(4,614)	126,066
Earnings (loss) before taxation	(4,614)	(54,171)
Taxation (recovery)	(2,309)	(27,086)
Net earnings (loss)	\$ (2,305)	\$ (27,085)

1972 FINANCIAL STATEMENTS

PAN CANA INDUSTRIES LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

		Year Ended December 31	
	NOTES	1972	1971 (Note 2)
REVENUE		<u>\$24,093,194</u>	<u>\$18,747,398</u>
COST AND EXPENSES			
Cost of sales and direct contract costs		19,464,172	15,507,923
General and administration		1,480,014	1,448,847
Depreciation and depletion	1	765,775	569,060
Interest on long-term debt		396,588	220,290
Other Interest		<u>347,202</u>	<u>329,131</u>
		<u>22,453,751</u>	<u>18,075,251</u>
EARNINGS BEFORE TAX, LOSS ON DISCONTINUED OPERATIONS AND EXTRAORDINARY GAIN		<u>1,639,443</u>	<u>672,147</u>
INCOME TAXES	6		
Current		(57,573)	90,720
Deferred		<u>671,752</u>	<u>138,533</u>
		<u>614,179</u>	<u>229,253</u>
EARNINGS FROM CONTINUING OPERATIONS		1,025,264	442,894
LOSS ON DISCONTINUED OPERATIONS, net of tax effect	1	(58,093)	(334,521)
EXTRAORDINARY GAIN on insurance claim, net of tax effect		<u>111,073</u>	<u>—</u>
NET EARNINGS		<u>\$ 1,078,244</u>	<u>\$ 108,373</u>
EARNINGS PER SHARE			
Continuing operations		32 ¢	14 ¢
Discontinued operations		(2) ¢	(11) ¢
Extraordinary gain		<u>4 ¢</u>	<u>—</u>
		<u>34 ¢</u>	<u>3 ¢</u>

PAN CANA INDUSTRIES LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended December 31	
	1972	1971 (Note 2)
SOURCE OF FUNDS		
Continuing operations, after adjustment for non-cash items	\$2,174,628	\$ 794,419
Increase in long-term debt (net)	297,750	2,209,204
Proceeds of stock options exercised	4,500	—
Other	28,488	80,595
	<u>2,505,366</u>	<u>3,084,218</u>
APPLICATION OF FUNDS		
Fixed asset additions (net)	1,753,228	1,664,084
Loss on discontinued operations, after adjustment for non-cash items	58,093	502,288
Dividends paid by Strom Fisheries, Inc. prior to combination with PanCana Industries Ltd.	—	1,140,803
	<u>1,811,321</u>	<u>3,307,175</u>
WORKING CAPITAL INCREASE (DECREASE)	<u>\$ 694,045</u>	<u>\$ (222,957)</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1972	1971
RETAINED EARNINGS at beginning of year	\$1,549,944	\$2,582,374
Net earnings	1,078,244	108,373
	<u>2,628,188</u>	<u>2,690,747</u>
Dividends paid by Strom Fisheries, Inc. prior to combination with PanCana Industries Ltd.	—	1,140,803
RETAINED EARNINGS at end of year	<u>\$2,628,188</u>	<u>\$1,549,944</u>

PAN CANA INC.

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31

ASSETS	NOTES	1972	1971 (Note 2)
CURRENT ASSETS			
Cash		\$ 106,235	\$ 161,510
Accounts receivable		4,048,046	3,613,982
Inventories	3	6,438,994	4,479,520
Prepaid expenses and deposits		<u>255,616</u>	<u>216,745</u>
		10,848,891	8,471,757
FIXED ASSETS, at cost less accumulated depreciation and depletion			
	4	7,538,952	6,551,499
EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER THEIR BOOK VALUE			
	5	—	2,921,624
RESEARCH AND DEVELOPMENT, at cost less amounts written off			
		91,476	100,000
OTHER ASSETS			
		138,571	158,535
SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:			
	Director		
	Director		
		<u>\$18,617,890</u>	<u>\$18,203,415</u>

STRIES LTD.

COMPANIES

BALANCE SHEET

		December 31	
LIABILITIES	NOTES	1972	1971
			(Note 2)
CURRENT LIABILITIES			
Bank indebtedness	9	\$ 2,446,492	\$ 1,622,369
Accounts payable		4,559,153	4,011,957
Current maturities of long-term debt	1	325,000	325,000
Income taxes	6	<u>891,821</u>	<u>580,051</u>
		8,222,466	6,539,377
LONG-TERM DEBT	1,7	4,632,759	4,335,009
DEFERRED INCOME TAXES	6	<u>1,125,389</u>	<u>852,873</u>
		13,980,614	11,727,259
SHAREHOLDERS' EQUITY			
CAPITAL STOCK			
Authorized 10,000,000 common shares of no par value			
Issued 3,196,800 (1971 - 3,195,000) common shares	5,8	2,009,088	4,926,212
RETAINED EARNINGS		<u>2,628,188</u>	<u>1,549,944</u>
		4,637,276	6,476,156
		<u>\$18,617,890</u>	<u>\$18,203,415</u>

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Accounting policies followed by the Company are as follows:

(a) Principles of Consolidation

The consolidated financial statements include the Company's share of the accounts of all operating divisions for the year ended December 31, 1972 as follows:

		%
Construction	Bain Bros. Construction	100
Drilling	Jennings International Drilling	100
Electronics	Western Electronic Systems	100
	Western-Basic Automation Systems	see below
Equipment	North West Commercial Sales Ltd.	100
	Northland Commercial Sales Ltd.	100
	Dorval Tractor Ltd.	33 1/3
Geophysical	Northern Geophysical Ltd.	100
Fisheries	Strom Fisheries, Inc.	100
	Ocean Blazer, Inc.	12 1/2
	Delta Fishing Company, Inc.	20
	Epsilon Fishing Company, Inc.	15
	Zeta Fishing Company, Inc.	20
	Eta Fishing Company, Inc.	20
Pipeline	PanCana-Associated Contractors Ltd.	51

PanCana's share of Western-Basic Automation Systems up to April 30, 1972 was 100%. From that date PanCana retained only a right to a commission of 5% to a maximum of \$350,000 on gross sales in the territories formerly covered by Western-Basic Automation Systems. Baker Automation Systems Inc. assumed all management and financial responsibility for such sales. The results of Western-Basic Automation Systems to April 30, 1972 are included in the financial statements under the heading "Discontinued Operations".

(b) Depreciation and Depletion

Depreciation is provided on a straight-line basis at rates which will amortize the cost of the assets over their estimated useful lives recognizing residual values where appropriate. The annual rates of depreciation on major classes of assets are

Drilling rigs	10 % (when working)
Geophysical instrumentation	12 1/2 %
Tracked vehicles	10 %
Other vehicles	20 %
Mackenzie Valley Toll Road	20 %
Tuna seiners	5 %

Depletion and depreciation on producing oil and gas properties and related equipment is provided on the unit of production method under which the assets are amortized proportionately to the production of proven reserves.

(c) Current Maturities of Long-Term Debt

Where long-term debt is specifically secured by charges on revenue-producing assets and it is anticipated that future repayments of the debt will be made out of future revenue from the assets, no part of the debt is classified as a current liability. With respect to other long-term debt, principal payments due within twelve months of the balance sheet date are classified as current liabilities.

(d) Rental Equipment

When heavy equipment is rented to customers 20% of the rentals received on self-propelled equipment and 10% of the rentals received on attachments are applied as a reduction of the value at which the item is carried in inventory.

(e) Repairs and Maintenance

Drilling operations are charged with a fixed amount based on a weighted average of past years repair costs for each day that their equipment is working. Actual repairs are charged against the allowance so created.

2. RESTATEMENT OF 1971 FINANCIAL STATEMENTS

The 1971 consolidated balance sheet has been restated to reflect the change in the method of presenting the accounts of Dorval Tractor Ltd. and the fishing companies in which PanCana owns a minority interest. PanCana's investment in these companies was formerly presented on the equity basis of accounting and is now presented on the basis of full inclusion of PanCana's share of the underlying assets and liabilities.

3. INVENTORIES

Inventories are valued at the lower of cost and net realizable value and comprise:

	1972	1971
Equipment held for sale	\$6,022,527	\$4,255,244
Work in progress, raw materials and miscellaneous supplies	416,467	224,276
	<u>\$6,438,994</u>	<u>\$4,479,520</u>

4. FIXED ASSETS

Fixed assets comprise:

	1972			1971
	Cost	Depreciation & Depletion	Net	Net
Construction equipment	\$ 1,532,427	\$ 128,970	\$1,403,457	\$ 141,020
Mackenzie Valley Toll Road	219,401	74,394	145,007	174,731
Drilling rigs and equipment	2,374,251	1,329,326	1,044,925	965,733
Geophysical exploration equipment	3,379,056	1,505,248	1,873,808	2,097,826
Workshop plant and equipment	279,141	112,821	166,320	139,521
Tuna seiners	2,478,543	178,391	2,300,152	2,419,612
Petroleum and natural gas properties				
Producing *	392,695	69,933	322,762	296,606
Non-Producing	30,272	—	30,272	38,522
Land and buildings	211,773	47,952	163,821	194,069
Miscellaneous	110,902	22,474	88,428	83,859
	<u>\$11,008,461</u>	<u>\$3,469,509</u>	<u>\$7,538,952</u>	<u>\$6,551,499</u>

* The Company's petroleum and natural gas properties include interests in certain properties acquired in 1971 at a cost of \$1,500,000 and financed by a bank loan of equal amount. The loan balance of \$885,371 at December 31, 1972 has been deducted from the carrying value of the properties. See note 7.

5. EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER THEIR BOOK VALUE

At the time of acquisition of the Geophysical and Equipment Divisions the shares issued in part consideration were recorded at the then current quoted market value. The excess of this amount plus the nominal value of promissory notes issued and cash paid over the fair value of the net assets of those divisions was reflected on the consolidated balance sheet as "excess of cost of shares of subsidiaries over their book value" (goodwill). The mergers of the Construction, Drilling, Electronics and Fisheries Divisions were accounted for as "poolings of interest". The shares issued in connection with these mergers were recorded at the book value of the share capital of the acquired companies and, accordingly, purchased goodwill was not recorded.

In view of the diversity of the accounting treatment accorded the several business combinations, and consequent difference in the reflection of goodwill in the consolidated balance sheet, the Company considers that the preferable treatment at this time is to eliminate all goodwill from the consolidated balance sheet. Accordingly, the Company has written-off the acquired goodwill (\$2,921,624), previously reflected in the consolidated balance sheet, against share capital.

6. INCOME TAXES

(a)

Fishing Operations

The earnings of the Fisheries Division, which is based in Puerto Rico, are exempt from Puerto Rican tax under the provisions of the Industrial Development Act. In the event that the earnings are remitted to Canada a withholding tax of 29% becomes exigible. No provision has been made for such tax on 1972 earnings as the major part of the earnings has been utilized in the reduction of mortgage financing on the underlying fishing boats and is therefore not available for remittance. The remaining earnings of the operating fishing companies have not been distributed to the shareholders of those companies and there is no present intention of distributing these balances or of remitting them to Canada.

(b)

Of the \$891,821 (1971 \$580,051) shown as current income taxes payable, \$141,522 (1971 \$194,062) represents income taxes payable during the ensuing year. The balance of \$750,299 (1971 \$385,989) represents deferred taxes arising from the claiming as a tax deduction capital cost allowances on certain inventory items which are included in current assets. In accordance with generally accepted accounting principles this amount has been shown as a current liability although it is not payable within twelve months.

7. LONG-TERM DEBT

Long-term debt comprises:

	<u>1972</u>	<u>1971</u>
PanCana Industries Ltd.		
Bank term loan, interest at 2% over prime Canadian bank rate, payable in varying instalments to 1976	\$ 900,000	\$1,000,000
Equipment loan, interest at 2% over prime Canadian bank rate, payable on termination of construction contract	1,200,000	—
Oil and Gas Production loan, interest at 1¼% over prime Canadian bank rate, payable in equal monthly instalments to 1974	113,880	152,100
Chattel mortgages, interest at 7% to 11%, payable in varying instalments to 1974	175,387	34,068
Promissory notes, interest at 8% on the balance outstanding after October 15, 1972 payable in equal annual instalments	190,400	300,000
Promissory notes, interest at 8% payable in equal annual instalments (Note 8)	375,000	500,000
Northern Geophysical Ltd.		
Chattel mortgages, interest at 8½% to 15%, payable in varying instalments to 1974	212,820	554,091
Fisheries		
First marine mortgages, interest at ¾% over 180 day London Eurodollar offer rate, payable in equal instalments to 1978	<u>1,790,272</u>	<u>2,119,750</u>
	4,957,759	4,660,009
Less current maturities (Note 1)	<u>325,000</u>	<u>325,000</u>
	<u><u>\$4,632,759</u></u>	<u><u>\$4,335,009</u></u>

Payments required to meet instalments on the above debt are:

1973	2,222,800*
1974	999,293
1975	684,583
1976	609,583
1977	309,586
1978	131,914

* of the \$2,222,800 payable in 1973 \$1,200,000 is payable from the proceeds of sale of construction equipment on termination of a contract.

In addition to the long-term debt detailed above, PanCana Industries Ltd. is indebted to its bankers in the amount of \$885,371 (1971 \$1,500,000). This bank loan was incurred in connection with the acquisition of certain petroleum and natural gas properties. Since the bank loan is secured by the properties and is expected to be repaid during 1973 exclusively from production proceeds to be received therefrom, the loan balance has been deducted from the book value of the properties.

8. CAPITAL STOCK

During the year 1,800 shares were issued to employees for cash of \$4,500 under the terms of the employees' stock option plan. Options in respect of 2,000 shares were cancelled and at December 31, 1972 there remained outstanding options to employees in respect of 125,900 shares at \$2.50 per share exercisable in varying amounts to 1976.

The holders of 8% promissory notes in the amount of \$375,000 included in long-term debt may elect to receive payment in common stock of the Company at \$5.00 per share. If such elections are made the Company will issue up to 25,000 additional shares in each of the years 1973 to 1975.

9. ASSETS SUBJECT TO LIEN OR PLEDGE

The bank indebtedness and term loan are secured by a general assignment of book debts and a floating charge debenture. This debenture contains certain restrictions as to the maintenance of minimum working capital and requires the approval of the bank prior to the payment of any dividends. The equipment loan is secured by chattel mortgages on specific construction equipment. The Company's oil and gas properties are charged to secure the oil and gas production loans and the Company's Edmonton property is charged as security on the convertible promissory notes. Certain seismic exploration equipment, vehicles and equipment held for resale are subject to chattel mortgages.

10. LONG-TERM LEASES

The Company's total obligations in respect of long-term leases are:

1973	\$396,000
1974	356,000
1975	121,000
1976-1978	78,000
1979	72,000

11. STATUTORY INFORMATION

In 1972 the Company and its subsidiaries paid \$290,166 remuneration to directors, officers and senior employees.

12. CONTINGENT LIABILITIES

Three of the subsidiaries of the Company are contingently liable in respect of finance contracts subject to recourse in the amount of \$3,025,000.

Riddell, Stead & Co.

CHARTERED ACCOUNTANTS 407 Eighth Avenue S.W. Calgary 2, Alberta

AUDITORS' REPORT

To the Shareholders
PanCana Industries Ltd.

We have examined the consolidated balance sheet of PanCana Industries Ltd. and its subsidiaries as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of PanCana Industries Ltd. and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the company's equity in the Fisheries Division we have relied on the report of the auditors who have examined the financial statements of certain of the companies comprising such Division.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 19, 1973

Riddell, Stead & Co.

HEAD OFFICE

736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

DIVISION OFFICES

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Edmonton, Alberta T6C 4B2
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Gen. Manager — W. R. Kelsay

Western Electronic Systems
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Calgary, Alberta
Gen. Manager — W. Otto

North West Commercial Sales Ltd.
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Gen. Manager — E. E. Kuhn

Northland Commercial Sales Ltd.
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Langley, British Columbia
Gen. Manager — I. Eisler

Dorval Tractor Ltd.
2799 Mpee. Saint Remi
Dorval, Quebec

Gen. Manager — R. Dawes

Northern Geophysical Ltd.
5911 - Fifth Street S.E.
Calgary, Alberta T2H 1L5

Gen. Manager — D. G. Propp

Strom Fisheries Inc.
San Juan
Puerto Rico

PanCana-Associated Contractors Ltd.
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Gen. Manager — W. L. Daniels

LEGAL COUNSEL

McCaffery & Company
634 Sixth Avenue S.W.
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AUDITORS

Riddell Stead & Co.
407 Eighth Avenue S.W.
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company — Calgary, Montreal,
Toronto, Winnipeg, Regina and Vancouver.

SHARES LISTED

Common shares listed on Toronto Stock Exchange

